

Message Text

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ACTION EUR-12

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 1972

INFO ALL EC CAPITALS 2541

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PASS AGRICULTURE

E.O.11652: N/A

TAGS: EAGR, EEC

SUBJECT: EFFECTS OF THE DROUGHT ON THE EC BUDGET

REF: (A) EC BRUSSELS 8005, (B) PARIS 24330

1. SUMMARY: AS EXPECTED, THE DROUGHT APPEARS TO BE TAKING SOME OF THE PRESSURE OFF THE EC BUDGET. THE REVISED EC AGRICULTURAL BUDGET APPROPRIATIONS FOR 1977 ARE ABOUT 200 MILLION U.A. LOWER THAN THE BUDGET SUBMITTED IN JULY. SUBSTANTIAL INCREASES IN RECEIPTS FROM VARIABLE LEVIES ARE EXPECTED IN 1976 AND 1977. BUT THE APPROPRIATIONS FOR EC PRICE SUPPORT PROGRAMS PROPOSED FOR 1977 ARE STILL HIGH--6 PERCENT ABOVE THE 1976 LEVEL AND OVER 30 PERCENT ABOVE 1975 EXPENDITURES. IN ADDITION, THE COMMISSION'S BUDGET ESTIMATES FOR 1977 ARE VERY OPTIMISTIC-- THEY ASSUME THE ADOPTION OF CERTAIN DAIRY REFORM MEASURES AND THEY DO NOT ALLOW FOR 1977/78 PRICE INCREASES. THUS, THE PROBABLE REDUCTION IN PRICE SUPPORT EXPENDITURES RESULTING FROM THE DROUGHT IS NOT LIKELY TO LEAVE ANY "SURPLUS" FOR THE FINANCING OF DROUGHT AID MEASURES. NEITHER THE 1976 NOR

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THE 1977 BUDGET CONTAINS ANY SPECIAL ALLOWANCES FOR DROUGHT

AID (EXCEPT FOR A FEW RELATIVELY MINOR PROGRAMS), WHICH SUGGESTS THAT THE COMMISSION INTENDS TO AVOID FINANCIAL INVOLVEMENT IN MAJOR DROUGHT AID PROGRAMS. END SUMMARY.

2. A COMMISSION OFFICIAL IN THE GUARANTEE SECTION OF FEOGA TOLD US THAT REVISION OF THE 1977 BUDGET, WITH THE EXCEPTION OF A FEW TECHNICAL DETAILS, HAD NOW BEEN COMPLETED BY THE COMMISSION AND THAT THIS REVISED BUDGET WOULD BE SUBMITTED TO THE COUNCIL THIS WEEK. THE ORIGINAL VERSION OF THE BUDGET WAS APPROVED PROVISIONALLY BY THE COUNCIL IN JULY WITH THE UNDERSTANDING THAT THE COMMISSION'S ESTIMATES OF AGRICULTURAL EXPENDITURES WOULD BE REVISED IN EARLY SEPTEMBER BASED ON DEVELOPMENTS IN EC AND WORLD MARKETS. OUR SOURCE ANTICIPATES FINAL APPROVAL OF THE 1977 BUDGET IN NOVEMBER OR DECEMBER FOLLOWING A "DIALOGUE" AMONG THE COMMISSION, THE COUNCIL AND THE PARLIAMENT.

3. AT 6.2 BILLION U.A., THE REVISED 1977 BUDGET FOR THE GUARANTEE SECTION OF FEOGA (WHICH COVERS THE COST OF EC PRICE SUPPORT PROGRAMS) IS ABOUT 6 PERCENT HIGHER THAN THE 1976 BUDGET AS AMENDED ON SEPTEMBER 16, 1976. (THE BUDGET FOR THE GUIDANCE SECTION OF FEOGA, WHICH COVERS THE COST OF STRUCTURAL IMPROVEMENT PROGRAMS, REMAINS AT 325 MILLION U.A.) HOWEVER, THE GUARANTEE SECTION BUDGET IS ABOUT 200 MILLION U.A. LOWER THAN THE 1977 BUDGET SUBMITTED IN JULY. THE LARGEST REDUCTION HAS BEEN MADE FOR THE GRAINS SECTOR (DOWN FROM 950 TO 760 MILLION U.A.). SMALLER REDUCTIONS HAVE BEEN MADE FOR OLIVE OIL (40 MILLION U.A.), SUGAR (10 MILLION U.A.), AND BEEF (40 MILLION U.A.). ON THE OTHER HAND, THE AMOUNTS BUDGETED FOR TOBACCO AND MONETARY COMPENSATORY AMOUNTS HAVE BEEN INCREASED BY ABOUT 25 AND 30 MILLION U.A., RESPECTIVELY. THE REDUCED ESTIMATES OF EXPENDITURE RESULT PRIMARILY FROM DROUGHT-INDUCED PRODUCTION DECLINES AND CONSEQUENT REDUCTIONS IN THE ESTIMATED COSTS OF SURPLUS DISPOSAL PROGRAMS.

4. IN BOTH THE ORIGINAL AND THE REVISED 1977 BUDGET, THE AMOUNT ALLOCATED FOR THE DAIRY SECTOR HAS BEEN SET AT 2 BILLION U.A. (ALMOST ONE-THIRD OF THE TOTAL BUDGET FOR THE GUARANTEE SECTION). HOWEVER, THIS FIGURE IS MISLEADING AS IT IS CONTINGENT UPON THE ADOPTION OF A PRODUCER CORESPONSIBILITY TAX WHICH WOULD BE USED TO DEFRAY THE COSTS OF EC DAIRY PROGRAMS. THE REVISED LIMITED OFFICIAL USE

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BUDGET PROVIDES FOR A RESERVE OF 221.5 MILLION U.A. (THE USE OF WHICH WOULD BE SUBJECT TO SPECIAL COUNCIL AND EUROPEAN PARLIAMENT APPROVAL) IN THE EVENT THAT THE PRODUCER CORESPONSIBILITY TAX IS NOT APPLIED IN 1977. THIS FIGURE IS AT THE SAME TIME AN ESTIMATE BOTH OF THE RECEIPTS WHICH WOULD ACCRUE FROM THE CORESPONSIBILITY TAX AND OF EXPENDITURES OVER AND ABOVE THE 2 BILLION U.A. ALLOCATION WHICH THE OPERATION OF THE EC DAIRY PROGRAMS WILL REQUIRE. IN SUBMITTING THE ORIGINAL

BUDGET IN JULY, THE COMMISSION UNOFFICIALLY ESTIMATED THIS FIGURE AT 380 MILLION U.A. ALTHOUGH IT WAS NOT ACTUALLY INSERTED INTO THE BUDGET. THUS, THE COMMISSION HAS IN EFFECT REDUCED ITS ESTIMATE OF TOTAL 1977 DAIRY COSTS FROM 2,380 MILLION U.A. TO 2,220 MILLION U.A. AS A RESULT OF THE DROUGHT; BUT IT HAS LOWERED THE ESTIMATED RECEIPTS FROM THE CORESPON- SIBILITY TAX BY THE SAME AMOUNT, LEAVING THE DAIRY BUDGET APPROPRIATIONS UNCHANGED. THE FEOGA OFFICIAL INDICATES THAT THE COMMISSION'S ESTIMATE OF 1977 DAIRY COSTS ALSO ASSUMES IMPLEMENTATION OF SOME SORT OF PROGRAM OF PREMIUMS FOR THE NON- DELIVERY OF MILK OR FOR HERD CONVERSION. THAT IS, ESTIMATED EXPENDITURES HAVE BEEN REDUCED BY AN AMOUNT CORRESPONDING TO COMMISSION ESTIMATES OF THE RESULTING REDUCTION OF MILK DELIVERIES. HOWEVER, SINCE MEMBER STATE REQUESTS FOR REIMBURSE- MENT OF THE COST OF THIS PROGRAM FROM FEOGA WILL NOT BE MADE BEFORE 1978, THE ESTIMATED COST OF THIS PROGRAM IS NOT INCLUDED IN THE 1977 BUDGET.

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PASS AGRICULTURE

5. THE PECULIAR MANNER IN WHICH ESTIMATED DAIRY COSTS ARE TREATED DELIBERATELY UNDERSTATES THE 1977 FEOGA BUDGET. NOR DOES THE TOTAL OF 6.2 BILLION U.A. INCLUDE ANY ALLOWANCE FOR

1977/78 PRICE INCREASES (THE COMMISSION WILL PROPOSE A RESERVE OF 200 MILLION U.A.--SIMILAR TO THE RESERVE FOR THE DAIRY SECTOR DESCRIBED IN PARAGRAPH 4--FOR THIS PURPOSE; HOWEVER, THE COUNCIL HAS OPPOSED SUCH ARRANGEMENTS IN THE PAST).

6. WE ASKED THE FEOGA OFFICIAL IF THE SUPPLEMENTARY BUDGET FOR 1976, WHICH RECEIVED THE FINAL APPROVAL OF THE EUROPEAN PARLIAMENT ON SEPTEMBER 16, HAD BEEN REVISED TO TAKE INTO ACCOUNT THE EFFECTS OF THE DROUGHT ON EC PRODUCTION. THE OFFICIAL SAID THAT THERE HAD ONLY BEEN MINOR REVISIONS IN THE SUPPLEMENTARY BUDGET SINCE ITS SUBMISSION IN JULY (ABOUT 20 MILLION U.A. MORE HAD BEEN SET ASIDE FOR BEEF WHILE SLIGHT REDUCTIONS IN THE ESTIMATES FOR SUGAR AND DAIRY PRODUCTS HAD BEEN MADE). THE EC'S CUMBERSOME BUDGET APPROVAL PROCEDURE MADE AN OVERHAUL OF THE SUPPLEMENTARY BUDGET INADVISABLE. HE ADMITTED THAT THE 1976 BUDGET MIGHT BE SOMEWHAT OVERESTIMATED--IN PART BECAUSE THE DROUGHT MIGHT REDUCE EXPENDITURES FOR SOME LIMITED OFFICIAL USE

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PRODUCTS IN 1976 AND IN PART BECAUSE FOOD AID EXPENDITURES WILL NOT BE AS HIGH AS ESTIMATED. IN PARTICULAR, FOOD AID SHIPMENTS OF NFDN ARE MOVING AT A MUCH SLOWER RATE THAN PROVIDED FOR IN THE BUDGET. HE ESTIMATED THAT THE AMOUNT OF OVERESTIMATION MIGHT BE 100 TO 200 MILLION U.A. (ABOUT HALF DUE TO DECREASED FOOD AID COSTS AND HALF TO DROUGHT-RELATED REDUCTIONS). IF IN NOVEMBER IT APPEARED THAT SUCH A "SURPLUS" WERE GOING TO MATERIALIZE, HE SAID THAT THE COMMISSION WOULD TRY TO ACCELERATE PAYMENTS TO MEMBER STATES AND IN THIS WAY USE IT UP. COMMENT: THE AMENDED 1976 BUDGET IS ABOUT 675 MILLION U.A. HIGHER THAN THE ORIGINAL 1976 BUDGET. SEVERAL MEMBER STATES COULD BE EXPECTED TO GREET UNFAVORABLY THE IDEA THAT A "SURPLUS" OF CREDITS IN THIS BUDGET SHOULD BE USED TO FUND NEW PROGRAMS.

7. ASKED WHETHER OR NOT THERE WAS ANY ALLOTMENT FOR THE FUNDING OF SPECIAL DROUGHT MEASURES IN FEOGA (EITHER IN THE GUIDANCE OR GUARANTEE FUND), THE OFFICIAL SAID THAT WITH THE EXCEPTION OF ALLOWANCES FOR THE FUNDING OF A FEW SPECIAL PROGRAMS (E.G., THE SPECIAL SUBSIDY FOR THE FEEDING OF LIQUID SKIM MILK), THERE WERE NO SUCH ALLOTMENTS. HE DID NOT EXPECT THE COMMISSION TO GET INVOLVED IN THE FUNDING OF NATIONAL DROUGHT PROGRAMS.

8. THE OFFICIAL CONFIRMED THAT SUBSTANTIAL INCREASES IN VARIABLE LEVIES WERE EXPECTED IN 1976 AND 1977--DUE BOTH TO INCREASED IMPORTS AND RELATIVELY LOW WORLD PRICES FOR AGRICULTURAL COMMODITIES. HE SAID THAT REVENUES FROM VARIABLE LEVIES (INCLUDING THE TAX ON SUGAR PRODUCERS) WERE EXPECTED TO BE ABOUT 830 MILLION U.A. IN 1976 AS COMPARED WITH ABOUT 520 MILLION IN 1975 AND 330 MILLION IN 1974. EVEN HIGHER REVENUES WERE ANTICIPATED IN 1977--ABOUT 1 BILLION U.A. IF THE LEVEL OF

THESE REVENUES IS TAKEN INTO ACCOUNT, THE INCREASE IN THE
 "NET COST" OF THE CAP IS SOMEWHAT MITIGATED, AS SHOWN BELOW:

FEOGA BUDGET		
GUARANTEE SECTION	VARIABLE LEVIES,	
(MILLION U.A.)	SUGAR TAX, ETC.	NET COST

1974	3,099 (ACTUAL EXPENDITURES)	330	2,769
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1975	4,727 (ACTUAL EXPENDITURES)	520	4,207
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(SEPTEMBER		
1976	5,835 (ALLOCATION)	830 ESTIMATE) 5,005

(SEPTEMBER		
1977	6,188 (ALLOCATION)	1,000 ESTIMATE) 5,188

NEVERTHELESS, THE COMMISSION OFFICIAL NOTED THAT THESE REVENUES BY REGULATION ARE NOT SPECIFICALLY EARMARKED FOR FEOGA; RATHER THEY ARE INCORPORATED INTO THE TOTAL COMMUNITY BUDGET AS THE COMMUNITY'S "OWN RESOURCES." IN NORMAL COMMUNITY PROCEDURE, ANTICIPATED REVENUES FROM LEVIES, ETC., WERE NOT TAKEN INTO ACCOUNT IN FIXING THE LEVEL OF AGRICULTURAL EXPENDITURES. BUT, OBVIOUSLY, SUCH REVENUES DID REDUCE THE NEED FOR DIRECT CONTRIBUTIONS BY MEMBER STATES AND THUS THEY DID INFLUENCE MEMBER STATE ATTITUDES.

9. COMMENT: THE LATEST COMMISSION BUDGET ESTIMATES CONFIRM EARLIER SPECULATION THAT THE DROUGHT WILL TAKE SOME OF THE PRESSURE OFF THE EC AGRICULTURAL BUDGET (REF A). HOWEVER, AS PAST EC BUDGET PRESENTATIONS HAVE UNDERSTATED AGRICULTURAL EXPENDITURES, THE EXTENT OF THIS RELIEF IS LIMITED. IF, AS EXPECTED, THERE IS A STRONG PUSH FOR HIGHER 1977/78 FARM PRICES, THE RELIEF RESULTING FROM THE DROUGHT COULD BE FURTHER DIMINISHED. IT DOES NOT APPEAR TO US THAT "UNCOMMITTED FEOGA FUNDS" WILL BE AVAILABLE TO FINANCE DROUGHT LOSSES (REF B). HINTON

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